

**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LAUREL COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Laurel County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$1,168 from the prior year, resulting in excess fees of \$7,853 as of December 31, 2009. Revenues decreased by \$269,073 from the prior year and expenditures decreased by \$267,905.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
The Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Laurel County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2010 on our consideration of the Laurel County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Lawrence Kuhl, Laurel County Judge/Executive
The Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Laurel County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 26, 2010

LAUREL COUNTY
FRED YADEN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

Federal Grants:

High Intensity Drug Trafficking Area (HIDTA)	\$ 68,844	
Unlawful Narcotics, Investigation, and Treatment		
Education (UNITE)	95,448	
Highway Safety Grant	31,950	
U.S Forestry Contract	27,342	
Organized Crime Drug Enforcement Task Force (OCDETF)	9,434	
US Army Corps of Engineers	3,410	\$ 236,428

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	89,673
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State Fees For Services:

Finance and Administration Cabinet	55,894	
Cabinet for Health and Family Services	50	
Sheriff's Security Service	70,413	126,357

Circuit Court Clerk:

Fines and Fees Collected	7,212	
Court Ordered Payments	49	7,261

Fiscal Court

Sheriff's Support	294,136	
Juvenile Transports	16,363	
Surplus Property Sales	8,225	
Election Commissioner	1,250	
Miscellaneous	1,694	321,668

County Clerk - Delinquent Taxes	137,643
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Commission On Taxes Collected	639,188	
Telecommunication Commissions	9,613	648,801

Fees Collected For Services:

Auto Inspections	25,634	
Accident and Police Reports	3,795	
Serving Papers	120,525	
Carrying Concealed Deadly Weapon Permits	8,920	158,874

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 FRED YADEN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Revenues (Continued)

Other:

Add-On Fees	\$	64,777	
Miscellaneous		25,853	
Restitution		<u>299</u>	\$ 90,929

Interest Earned 230

Borrowed Money:

State Advancement		<u>360,000</u>
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Total Revenues 2,177,864

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$	980,879
Part-Time Salaries		31,712
Other Salaries		130,533
Overtime		56,738

Employee Benefits-

Employer's Share Social Security		86,606
Employer's Share Hazardous Duty Retirement		50,160
Employer Paid Health Insurance		220,448
Unemployment Benefit		15,489

Contracted Services-

Advertising		186
Vehicle Maintenance and Repairs		11,090
Copier		1,148
Accounting Fees		2,343

Materials and Supplies-

Office Materials and Supplies		9,065
Gasoline		75,473

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 FRED YADEN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Other Charges-

Dues	\$	1,260	
Postage		18,816	
Bond		4,181	
Computer and Software		4,500	
Communications		13,492	
Miscellaneous		<u>6,810</u>	\$ 1,720,929

Debt Service:

State Advancement	<u>360,000</u>
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Total Expenditures	<u>\$ 2,080,929</u>
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Net Revenues	96,935
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Less: Statutory Maximum	<u>86,436</u>
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Excess Fees	10,499
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Less: Training Incentive Benefit	<u>2,646</u>
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Excess Fees Due County for 2009	<u><u>\$ 7,853</u></u>
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The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6.0 percent of their salary to the plan. The county's contribution rate for non hazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9.0 percent of their salary to be allocated as follows: 8.0 percent will go the member's account and 1.0 percent will go to the KRS Insurance Fund. The county's contribution rate for hazardous employees was 29.50 percent for the first six months and 32.97 for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of credit must equal 87, and the member must be 57 years of age) or the member is age 65 with a minimum of 60 months of service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is 60 with a minimum of 60 months of service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Laurel County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Laurel County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Seizure Account

As of December 31, 2008, the Sheriff had a balance of \$41,788 in the Drug Seizure Account. During 2009, the Sheriff deposited \$8,457 of seized monies in the Drug Seizure Account and the account earned interest totaling \$77. The Sheriff disbursed \$4,463 in accordance with court orders, leaving a balance of \$45,859 as of December 31, 2009. Since these monies are being held by the Sheriff pending court adjudication, they are not part of excess fees.

Note 5. Undercover Drug and Alcohol Account

As of December 31, 2008, the Sheriff had a balance of \$6,497 in the Undercover Drug and Alcohol Account. Of the \$6,497, \$2,008 was cash on hand held by the Sheriff to be used in investigative drug cases. During 2009, the account earned interest totaling \$12. The Sheriff expended \$6,509 during the year leaving a balance of \$0. The account was closed in August 2009. These funds were used to enhance law enforcement activities and not to supplant the Sheriff's normal operating budget; therefore, they are not included as a part of excess fees.

Note 6. Court Ordered Forfeitures

As of December 31, 2008, the Sheriff had a balance of \$5,682 in the Court Ordered Forfeitures Account. During 2009, the Sheriff deposited funds totaling \$21,353 in the Court Ordered Forfeiture Account. The account earned interest totaling \$33. The Sheriff properly expended \$3,551 during calendar year 2009, leaving an unexpended balance of \$23,517. The use of these monies is determined by the court order granting forfeiture funds to the Sheriff's office; therefore, they are not included as a part of excess fees.

Note 7. Federal Seizure Account

As of December 31, 2008, the Sheriff had a balance of \$382,428 in the Federal Seizure Account. During 2009, the Sheriff received \$57,172 from federal agencies for the Laurel County Sheriff's share of assets seized as a result of joint investigations with other local, state, and federal agencies. The account earned interest totaling \$596. The Sheriff expended \$247,646 during the year, leaving a balance of \$192,550 as of December 31, 2009. These funds are used to enhance law enforcement activities and not to supplant the Sheriff's normal operating budget; therefore, they are not included as a part of excess fees.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 8. Donation Account

In April 2009, the Sheriff opened a donation account. During 2009, the Sheriff deposited \$4,175 and the account earned interest totaling \$5. No funds were expended from this account, leaving a balance of \$4,180 as of December 31, 2009. These funds are used to enhance law enforcement activities and not to supplant the Sheriff's normal operating budget; therefore, they are not included as a part of excess fees.

Note 9. Transient Room Tax Account

In September 1979, the Laurel County Fiscal Court passed an ordinance establishing the London-Laurel County Tourist and Convention Commission and levying a 3% transient room tax. In the ordinance, the Laurel County Sheriff was designated as the collector of the tax. During 2009, the Sheriff collected \$430,163 of transient room tax receipts. In accordance with the ordinance, the Sheriff disbursed \$411,881 to the Laurel County Fiscal Court, who in turn remitted the tax to the London-Laurel County Tourist and Convention Commission. The Sheriff retained \$18,282 as his collection fee and used these fees for the operation of the office.

Note 10. Leases

- A. On February 27, 2004, the Laurel County Fiscal Court entered into a 5-year leasing agreement with Farmers Bank and Capital Trust Co., with payments being made to Leasing One Corporation, for the purchase of five Sheriff's Cruisers and equipment. Historically, the sheriff's office has made the payments for this lease, however, the Fiscal Court paid the remainder of the lease during calendar year 2009. A payment of \$26,274 was made during calendar year 2009, resulting in a zero ending balance.
- B. On February 16, 2007, the Sheriff's office entered into a lease agreement with Great American Leasing Corporation for a copier. The agreement requires a monthly payment of \$96 for 36 months to be completed in February 2010. The total balance of the agreement was \$151 as of December 31, 2009.

Note 11. Lease Agreement with the Laurel County Board of Education

On August 9, 1938, the Laurel County Fiscal Court and the City of London entered into a contract that started the Laurel County Board of Education (Board), while not a party to the contract, was to occupy the third floor of a county owned building. In 1996, the Board renovated the third floor at a cost of \$148,600. The Board subsequently recouped \$43,200 of the renovation costs through rental income from the Kentucky Department of Education.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 11. Lease Agreement with the Laurel County Board of Education (Continued)

In 2002, at the Board's request, the Kentucky Department of Education left the building so that the Board could rent their portion of the building to the Sheriff's office. On January 14, 2002, the former Sheriff, on behalf of the Laurel County Sheriff's Office, and the Board entered into a lease agreement allowing the Sheriff's office to occupy the third floor of the building for a sum of \$14,400 per year beginning on July 1, 2002 and ending on June 30, 2003, renewable on June 30th, unless either party was notified otherwise. While this agreement does not specify as such, auditors have been informed through conversations with Board officials, the County Judge/Executive, the County Attorney, the former Sheriff, and the current Sheriff, that the Board will charge the Laurel County Sheriff's office rent until the Board has recouped the balance of \$105,400 of renovation costs incurred by the Board.

Despite the existence of the written lease agreement between the Board and the Sheriff's office, there is an unresolved issue in whether the Board had a legal ownership interest in the third floor space currently occupied by the Sheriff's office and was therefore able to enter into a lease with the Sheriff's office. In consideration of this unresolved issue, the Sheriff did not make rent payments to the Board during calendar year 2008. The Board, however, withheld \$14,400 from the Sheriff's October 2009 tax commissions for rent for July 1, 2008 through June 30, 2009. Auditors determined on the Sheriff's Settlement – 2008 that commissions should not have been reduced for the rent payments and a refund is due the Sheriff for overpayment of 2008 taxes. In our review of subsequent events, we found this issue to be unresolved; therefore, 2009 tax settlement will likely be influenced. If resolution of this issue were to conclude that the Sheriff should remit rental payments from the fee account, there would be an outstanding balance of \$55,000 as of December 31, 2009.

Note 12. Federal Grants

The Laurel County Sheriff's office was awarded an Operation UNITE grant for the period of January 1, 2009 through December 31, 2009. During 2009, grant funds in the amount of \$68,844 were received.

The Laurel County Sheriff's office was awarded a High Intensity Drug Trafficking Area (HIDTA) grant for the period of January 1, 2009 through December 31, 2009. During 2009, grant funds in the amount of \$95,448 were received.

The Laurel County Sheriff's office was awarded a Highway Safety grant for the period of January 1, 2009 through December 31, 2009. During 2009, grant funds in the amount of \$31,950 were received.

The Laurel County Sheriff's office was awarded a US Army Corps of Engineers grant for the period of January 1, 2009 through December 31, 2009. During 2009, grant funds in the amount of \$3,410 were received.

The Laurel County Sheriff's office was awarded a US Forestry grant for the period of January 1, 2009 through December 31, 2009. During 2009, grant funds in the amount of \$27,342 were received.

The Laurel County Sheriff's office was awarded an Organized Crime Drug Enforcement Task Force grant for the period of January 1, 2009 through December 31, 2009. During 2009, grant funds in the amount of \$9,434 were received.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
The Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Laurel County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated August 26, 2010. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Laurel County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 26, 2010

